Analysis of Government Expenditure and Private Investment on Economic Growth in Manado City

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ARTICLE INFORMATION

ABSTRACT

Regional Economic Development requires an important role from the Government and the Private Sector in driving the Economy in order to Increase Economic Growth as an Indicator of the Success of a Region. The Government through the allocation of Government Expenditure, and Private Parties through Domestic Investment and Foreign Investment are expected to be able to support regional economic growth. This study intends to examine how government spending and private investment affect Manado City's economic growth., the data used is secondary data from 2012-2021 obtained from the Manado Central Statistics Agency and the Manado City PTSP Investment Office. Ordinary Least Square (OLS), a multiple linear regression model, and the Eviews program were employed as the analysis approach in this study. The findings indicated that private investment has a significant influence on economic growth whereas government spending has no significant impact. Then, both public and private investment have an impact on economic growth.

Keywords: Economic Growth, Government Expenditure, Private Investment

INTRODUCTION

The National Development Process Includes Regional Development. In a development, of course, it is hoped that a growth, regional development through regional autonomy to improve regional performance in managing its finances and is expected to improve community welfare and, of course, will increase Economic Growth. According to Sukirno (2004), in macro-analysis, a country's economic growth is determined by the growth of its real national income. Economic Growth is a benchmark for the success of development carried out by local governments, economic development of a region can be done through Government Expenditure to excite an economy. The government truces to carry out various kinds of development through Government Expenditure in various public sectors to build regional facilities and infrastructure to stimulate regional economic activities themselves because the more significant government expenditure or Government Expenditure in Productive areas will further enlarge the economic level of the region itself.

Furthermore, later, good Economic Growth will be created for the region. Not only that, but the financing of the Private Sector is also very much needed. The Private sector must be relied on to support the Government in building a Regional Economy through Investment from within the Country and from Abroad. Kuncoro (2013: 137), Economic Growth also depends on the amount of investment value that can drive the economy. Manado City, the capital of North Sulawesi Province, is developing with dynamic development dynamics that continue to race for the community's welfare. The existence of Manado City as a Government Center, Center of Coveting and Services with the potential of areas that support tourism stings to expand Government and private industry in its economic activities, also of course to increase Economic Growth.
In the last 5 years we can see economic growth in Manado in the following Economic Growth Curve:

Figure 1. Economic Growth Manado City
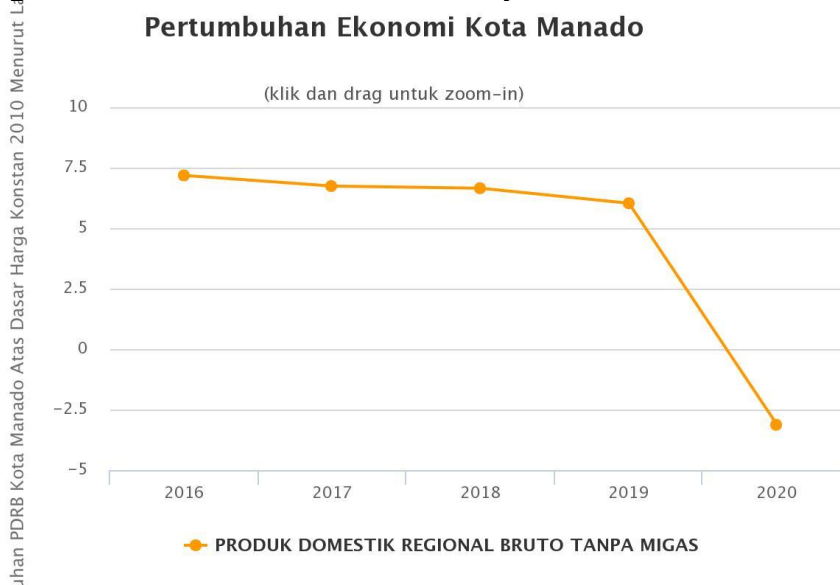
Source: BPS (Badan Pusat Statistik) Manado City

Economic Growth in Manado City Has Decreased over the last 5 years. In 2016 Economic Growth at 7.18%. From 2016 to 2017, down 6.74%, In 2017 to 2018,

Economic Growth Fell to 6.65%, and In 2018 to 2019, It Fell to 6.03%. From 2019 - 2020, Economic Growth Fell Very Significantly to the figure of -3.13%. This happened Because from 2019 to 2020, The Covid-19 Pandemic struck both the world and Manado, causing the regulation on large-scale social restrictions to have a considerable negative impact on the world and regional economies (PSBB). Government Policy in Allocating Its Expenditure the Role of Private Pihas in Investment is one of the Steps to Recover the Regional Economy.

Based on this, this study intends to evaluate the impact of Government Expenditure and private investment on Manado City's economic growth.

LITERATURE REVIEW
Economic Growth Theory

The outline of the growth process, according to Solow-theory Swans of economic growth, is comparable to that of Harrod-theory, domar's where the essential premise of the model is that labor (or population) expands at a given rate, for instance, P each year. The production function $Q = f(K, L)$ then applies to each period, and a society's inclination to save is stated as a specific percentage (s) of output (Q). Community savings $S = sQ$: If Q rises, then S will, too. All community savings are invested. $S = I = K$. A specific percentage of the production is then set aside for d I tubes and invested based on the idea that people have an inclination to save money. In this manner, capital stock increases (Boediono 1992).

Evsey Domar and Sir Roy F. Harrod, two economists, created the Harrod-Domar hypothesis of economic growth after Keynes. The full employment of the economy and the full use of the capital assets that make up society are two assumptions made by Harrod-theory. Domar's The household sector and the corporate sector make up the economy. People's savings are inversely correlated with national income; hence the savings function begins at zero. The marginal propensity to save (MPS) and the capital-output ratio (COR) and incremental capital-output ratio (ICR) ratios have fixed magnitudes, respectively (ICOR). According to this notion, a specific percentage of the economy's total output must be saved and invested for it to grow. The economy will expand more quickly the more money is saved and invested (Lincolyn, 2004).

Government Expenditure

Suparmoko (2000) defined a government expenditure as one that can be used to measure the scope of activities funded by government spending. The size and number of government operations influence how much money the government spends. However, we should be mindful that the ratio of government spending to gross national product (GNP) is only a hazy indicator of the actions/role of the government in an economy.

Fiscal policy (Sadono Sukirno 2000) is a government initiative to control the direction of the economy by determining the amount of government revenue and expenditure each year, which is reflected in the state budget document for the national and regional budgets. Government expenditure is a component of fiscal policy. This fiscal strategy tries to promote economic growth by stabilizing output levels, job opportunities, and pricing levels.

Private Investment

Investment is allocating or instilling current (present) resources to get benefits in the future (future). Investing money now means that the money should be consumable, but because of investment activities, the money is diverted to be invested for future profits.

Investment has 2 (two) aspects: current consumption with the hope of obtaining profits in the future.
(2009) Henry Faizal Noor A private sector investment is one that is made with the intention of making a profit. This kind of investing is also known as investing with a profit motive. These types of investments can be made by homes, Micro-enterprises, or individuals; they typically lack a formal structure and operate on a relatively modest scale and engage in trade, industry, or services. Small and Medium Enterprises (SMEs), some are already incorporated, and some are not yet, with the scale of the business ranging from small, to medium, both in terms of turnover, business capital, and work peace, with the field of industrial business, trade or services. Large companies, comprising state-owned enterprises (BUMN) and regionally held firms, as well as large corporations in the form of PMDN and PMA or non-facility investments (BUMD)

Literature study
Siti Aminah (2014), Analysis of the Effect of Private Investment and Local Government Expenditure on Economic Growth and Poverty in Jambi Province. The findings indicated that Jambi Province's economic growth was greatly impacted by both private investment and government affirmation at the same time.

Endy Grade Tampubolon (2016), entitled The Effect of Capital Expenditure and Private Investment on Economic Growth and its impact on Community Welfare, The findings of the capital expenditure research have a major impact and are positively correlated with economic growth in Indonesian districts and cities. Private Investment significantly influences economic growth and has a favorable link with it. Economic growth significantly affects community welfare and has a favorable correlation with it.

Wawan Dedi Marahendra (2016), The Effect of Capital Expenditure and Private Investment on Economic Growth with human development as an Intervening variable. The findings of the local government capital spending study had no immediate impact on either economic growth or human development. Both human development and economic growth are significantly benefited by private investment.

Yandiles Weya (2018), with the title Analysis of the Effect of Private Investment, Government Expenditure, and Population on Economic Growth in Bitung City, The findings of the research on Bitung City's economic growth show some variations, but the overall trend is good. Bitung City's private investment has significantly increased and is having a positive impact on the city's economy. The amount of direct spending has increased, which has benefited Bitung City's economic expansion.

Musdalifah (2020), Analysis of the Effect of Private Investment, Government Expenditure and Employment on Economic Growth, Private Investment Government spending has a significant impact on economic growth, research results have a small but significant impact, and labor absorption has no impact on economic growth.

Figure 2. *Conceptual Framework*
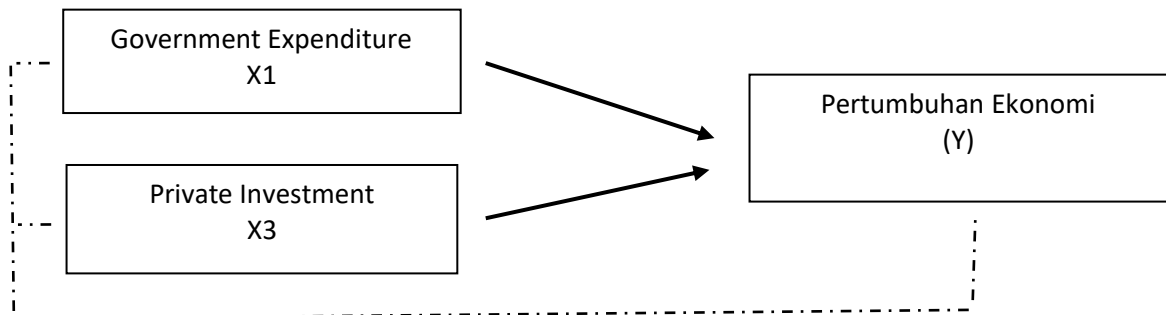
Hypothesis:
1. Suspected government spending affects economic growth
2. Suspected Private Investment Affects Economic Growth

RESEARCH METHOD

Data Types and Sources
Data is the information needed in research or, in other words, as information material regarding the variables to be studied. To obtain data or information that is related to this study, Secondary data is used.

The information is separated into primary and secondary data based on the source. Through conversations with the sources, primary data are gathered directly from them. Data that has been gathered by data collection organizations and disseminated to the data user community is referred to as secondary data. The information used in this study was obtained from relevant organizations as secondary data, namely the Investment Office of PTSP Manado City and the Central Statistics Agency of Manado City.

The method of data collection is one of the methods or ways researchers use to obtain correct and accountable information. The methods used in this study include:

Documentation Methods
The documentation method is to find data on things or variables in the form of records, BPS data, and PTSP Investment Service Data. Reference journals, transcripts, newspapers, magazines, inscriptions, minutes of meetings, leggers, agendas and so on (Moleong, 2000: 236). The documentation method will be used to find quantitative data in the form of the amount of Manado City Government Expenditure Realization, Manado City Foreign Investment Realization and Manado City Domestic Investment Realization, as well as Economic Growth.

A multiple regression model using the Ordinary Least Square (OLS) technique served as the analysis model for this investigation. The best linear unbiased estimator is OLS (BLUE). The OLS estimation has a variance that may be the smallest so that the real parameters can be estimated more precisely than other unbiased estimations. As a result, each regression coefficient estimated using the OLS method is, on average, linear and unbiased. OLS estimate is effective, to put it briefly. This model is used to see the influence between Government Defense and Private Investment on Manado's Economic

Growth. All calculations in this study's data processing and analysis were carried out using the Eviews program.

Individual Parameter Significance Test (Statistical Test t)

To determine if a variable has a significant impact on the dependent variable, the determined t-value is employed. If the value of the variable's t counts is higher than the value of the table t, the variable will have a significant impact (Suliyanto, 2011).

Coefficient of Determination (R2)

The regression model's ability to explain the variation of the bound variable is measured by the coefficient of determination. The following formula is used to determine the coefficient of determination's value:

$$R^2 = 1 - \frac{\sum e_i^2}{\sum y_i^2}$$

The coefficient of determination has a value between 0 and 1 (0< R2< 1). A low R2 value indicates that a free variable has little capacity to adequately describe a bound variable. In contrast, a close R2 value indicates that all the data required to predict the bound variable is contained in the free variable (Suliyanto, 2011).

Heteroskedasity Test

One of the fundamental presumptions of the conventional linear regression model is that each disturbance term's variance, which is constrained by a certain value in terms of the free variables, takes the form of a constant value equal to 2. This is known as the same variation or the assumption of heteroskedasticity.

Autocorrelation Test

A sequence of observations may be organized in a time series (such as in time-series data) or in a series of spaces (such as in time cross-sectional data or cross-sectional data), and this arrangement of observations is known as autocorrelation (Sumodiningrat, 2007).

Multicollinearity Test

The existence of a correlation between independent variables is known as multicollinearity. If there is a correlation between the independent variables in the regression model, it will be determined using the multicollinearity test. No correlation between independent variables should exist in a decent regression model.

RESULTS

Tabel 1. Individual Parameter Significance Test (t Test) and Coefficient of Determination Test (R2)

Model	Coefficient	Std. Error	t	Sign
C	6.494488	0.884093	7.345932	0.0002
GE	-5.34E-12	1.53E-12	-3.481244	0.0102
INV	1.43E-06	5.45E-07	2.625668	0.0341
R Square			0.531047	

Source: output eviews

Results of the Government Expenditure t Test on Economic Growth (PE)

Hypothesis Ho:βi=0 means that the Variable Government Expenditure does not significantly affect the Economic Growth of Manado City.

The hypothesis Ha:βi≠0 means that the Government Expenditure variable significantly affects the Economic Growth of Manado City.

The calculated t value obtained in this equation is -3.481244. The formula can obtain the t value of the table:

t table = t α/2 (df)

t table = t 0.025 (10) = 2.305

Since the calculated value of t < t of the tableFollowing that, the Ho hypothesis is confirmed. This indicates that the government expenditure variable has a limited impact on Manado City's economic growth.

Results of the Private Investment t Test on Economic Growth (PE)

The Hypothesis Ho:βi=0 means that the Private Investment variable does not significantly affect the Economic Growth of Manado City.

The Hypothesis Ha:βi≠0 means that the Private Investment variable significantly affects the Economic Growth of Manado City.

The calculated t value obtained in this equation is 2.625668. The formula can obtain the t value of the table:

t table = t α/2 (df)

t table = t 0.025 (10) = 2.305

Since the value of t counts < t of the table, the Ho hypothesis is rejected. This means that partially the Private Investment Variable has a significant effect on the Economic Growth of Manado City.

Coefficient of Determination Test (R2)

The estimate's findings led to a value of 0.531047 for the coefficient of determination R2. According to the value of the coefficient of determination R2, government spending and private investment can explain or have an impact on the economic growth variable to the extent of 53.10%, while variables outside the scope of the study can explain or have an impact on the remaining 46.90%

Tabel 2. Test of Classical Assumptions

Details	Value
Prob. Chi-Square(5)	0.0754
Obs*R-squared	5.736815
Jarque-Bera	0.126506

Source: Output Eviews

Heteroskedasticity Test

The data utilized were not subject to heteroskedasticity, according to the findings of the heteroskedasticity test, which showed that the probability value of Chi-Square was more than the significance level of = 5% or 0.0754 > 0.05.

Autocorrelation Test

This study used LM-test to look at autocorrelation problems in the model. The test findings demonstrated that there was no autocorrelation in the equation model used in this study. This is demonstrated by the probability value of the Obs*R-squared in the estimation result of 5.736815, which is less than the critical value of the Chi-Square table at a confidence level of 5%, which is 5.99147.

Normality Test

The outcomes of the Jarque-Berra test's normality analysis (JB Test). The results show that the Economic Growth Model viewed from Jarque-Bera 11 statistical normality is 0.126506 less than the value of 2. In addition, it is also indicated by the Probability figure of 0.938706%, which is greater than 0.05%. This proves that the data has been distributed normally (Pratomo, 2007).

Tabel 3. Multicholinearity Test

	GE	INV
GE	1.000000	0.800621
INV	0.800621	1.000000

Source: Output Eviews

If the correlation coefficient between the independent variables is greater than one or equivalent to 0.8, the data are considered multicollinear (Gujarati, 2003).
Based on testing, the correlation of educational variables with Economic Growth was obtained by 0.800621. The result of the correlation between the free variables does not exceed one, so it can be said that there is no indication of multicollinearity. Due to the absence of indications of multicollinearity in the correlation test, it can be concluded that in this regression model, each of the free variables is not related to influencing the bound variables.

DISCUSSION

The results of the research show that Government Expenditure does not affect Economic Growth. This means that the allocation of expenditure has not been entirely based on the need for facilities and infrastructure in the area needed by the community, and this Government Expenditure has not been appropriately distributed but is used for routine spending that is less productive. including in 2019 and 2020 Government Spending is Centralized on the Health Budget as The Government Focuses on Pandemic Management. It is the same as the previous research. To Wawan Dedi Marahendra (2016), Local Government Capital Expenditure in the Short term does not affect Economic Growth, and this is due to the benefits of applying capital expenditure requires a short period. In addition, the smaller portion of capital expenditure compared to the portion of employee expenditure does not follow each region's needs and priorities.
While the research results for Private Investment affect Economic Growth, this shows that the cooperation from the private sector has been very good in helping economic activities in Manado City. Many investors from within and outside the country have dared to invest in Manado City.

This shows that the business climate is already conducive to attracting investors to invest their capital in the Manado City Area. The endy Grande Tampubulon (2016) The role of private parties investing their capital in districts and cities in Indonesia has created a wide range of job opportunities for the community, boosting community income, which has an effect on raising the value of GRDP.

CONCLUSION

The following conclusions can be derived from the study and discussion's findings:
The analyses' findings indicate that Manado City's economic growth is not the consequence of government spending. According to the analysis's findings, Manado City's economic growth is influenced by private investment.

Suggestion:
The government recommended paying more attention to the allocation of its expenditure so that it is well distributed for the need for facilities and infrastructure that is more needed by the community to increase economic activities in the regions. For the government, it is recommended to pay more attention to factors that are the region's attractiveness and pay more attention to conflict environments to be Conducive so that investors can attract more investors both from within and outside the country to be able to invest in Manado City.

LIMITATION
In the next study, it is necessary to add other macroeconomic variables that are likely to affect Economic Growth so that the estimation model can be more trusted and able to explain Economic Growth in Manado City.

ACKNOWLEDGMENT

DECLARATION OF CONFLICTING INTERESTS
There is no conflict of interest in the study.

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APPENDIX

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ORIGINALITY REPORT

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